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WEEK OF 6 OCTOBER - 12 OCTOBER 1948

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

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Australia and New Zealand are expected to press for a US defense commitment in the Pacific at the Prime Ministers Conference in London (page 4).

Democratic Liberal Party president YOSHIDA will probably head a caretaker government while the Diet passes SCAP-approved civil service legislation, and pending national elections following the dissolution of the Diet (page 5).

The results of the Japanese prefectural and metropolitan education board elections, while still incomplete, indicate that the Communist Party has suffered an important defeat (page 5).

The Soviet sponsored North Korean "Democratic People's Republic of Korea" is sending a delegation to UNGA in order to strengthen the Soviet stand on the Korean issue (page 6).

The tide of the Communist general offensive continues as Red forces now appear capable of occupying six more major Nationalist cities (page 8). Another strategic blow has been dealt the Government by the destruction of the Chinh sien airfield (page 9). A serious gasoline shortage threatens to

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SUMMARY (continued)

ground all Nationalist military and commercial aircraft by mid-November (page 9). CHIANG Kai-shek is now loosing control over factions within his own Kuomintang Party (page 9). Price increases and the reappearance of a US dollar black market has dealt the government's economic reform program a severe blow (page 9).

Communist sabotage in Indonesia continues to threaten the Republic. Meanwhile the Netherlands Government in Hague is continuing with negotiations outside the GOC (page 11).

The abortive coup against the Phibul government in Siam may lead to stronger authoritarian measures (page 11).

The alleged detention in Hawaii of a Philippine labor leader has precipitated sharp press criticism of the US (page 12).

A bill before the New Zealand Parliament has raised the question of US claim to a Pacific Island group (page 12).

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Japan's attempts to promote trade with countries outside the Far East having very limited success

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SCAP's intensive efforts to expand Japan's trade with countries outside of the historical Far Eastern trade pattern are again indicated in an announcement by the US Political Adviser in Tokyo of a preliminary trade understanding between Egypt and Japan. The proposed arrangement covers the period extending from 1 October 1948 through 30 June 1949. SCAP would undertake to procure at least 75,000 bales of Egyptian cotton within a year after the effective date of the proposed arrangement, subject to its ability to market Japanese cotton textiles. Egypt agrees to encourage imports from Japan and that any limitation imposed on imports from Japan would be solely on the grounds of currency shortages. Particularly important is a proposed provision for the removal by Egypt of the special 40 per cent import duty levy applied about 1933 to Japanese goods entering Egypt.

During 1948, efforts have been made by Japan to effect trade arrangements with many countries outside of the Far East, e.g., Panama, Uruguay, Iran, India and Pakistan, the Netherlands, the French Union (including Metropolitan France, French protectorates or colonies) and certain parts of the sterling area (including, among others, the UK, Eire, the Faroe Islands, Iceland, Iraq, the Persian Gulf Sheikdoms and South Africa).

However, the probabilities of Japan successfully building up a significant trade with countries outside of the Far East are slight. Japan's hopes of expanding cotton textiles into such areas will be frustrated for an indefinite period by US and UK textile interests. Nor can Japan hope to gain its foreign exchange by increased exports of machinery. Even if a US policy to permit Japan a moderately-sized machinery industry should be effectuated, Japan does not have the resources nor technological know-how to compete on a large scale, outside of the Far East, with machinery manufacturers from countries such as the US, UK and eventually Germany. Fish products were once a major source of foreign exchange for Japan from the US and other countries, but Japanese efforts to secure permission to expand the presently restricted fishing areas are being met by opposition from its wartime enemies due to security reasons and pressure by fisheries' interests in those countries.

Concomitantly with its efforts to trade outside the Far East, Japan seeks to expand trade with the NEI and Siam, to negotiate cautiously with the Philippines (where public hostility is strong), to barter with a rapidly deteriorating China, and to make bilateral agreements with Far Eastern USSR for the exchange of Japanese rolling stock and machinery in return for coking coal, iron ore and other materials critical to Japan.

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GENERAL (continued)

Australia and New Zealand may urge US defense commitment at Prime Ministers Conference "B"

In addition to their announced concern over the political and economic ramifications of the European Recovery Program, Australia and New Zealand are expected to press for a reconsideration and re-evaluation of the problems of Commonwealth defense in the Pacific during the current London discussions. Specifically it is expected that the ability of the UK to fulfill her traditional role as the guarantor of Commonwealth security in the Pacific will be discussed.

A request for a military commitment from the US by Australia and New Zealand at this time would be interpreted by them as a logical adjunct to current discussions for the extension of US military assistance to France and the Benelux countries. The UK in the past has taken the view that Commonwealth defense and economic collaboration are not irreconcilable with US-UK-Western Europe cooperation. While Australia has always been vocal in its concern over Pacific defenses and over the need for a US commitment, New Zealand is expressing a growing apprehension over the trend of events in Asia. A prominent New Zealand official recently went so far as to state that his government would favor an Australia-New Zealand-US military alliance as a solution to the Pacific defense problem.

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JAPAN

Caretaker regime to be formed in Japan. The new government being formed in Japan to replace the middle-of-the-road Ashida coalition will be only a caretaker regime. The Diet, which is in special session to consider civil service legislation suggested by SCAP, voted on its convocation to limit its term to 30 days to be followed by dissolution and national elections. Former Prime Minister YOSHIDA Shigeru, president of the conservative Democratic-Liberal Party will probably head the interim government whose primary task will be the passage of the draft revisions of the National Public Service Law acceptable to SCAP. A large margin of conservative votes assures favorable action on this draft which the conservative parties support unanimously.

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The decision to hold national elections is based on the advisability of getting an expression of popular attitudes regarding the issue of conservative control of the government before there is any extensive break with the middle-of-the-road policies followed by the last two governments which were organized on the basis of the April 1947 elections. YOSHIDA's Democratic-Liberals are hopeful of increasing their present 151 lower house seats sufficiently to make possible single party control. The strength of conservative protagonism in Japan promises them a fair chance of success. Their political opponents, the Democrats and the Socialists, who were represented in the ASHIDA government may be expected, however, to offer considerable competition. The Democrats, whose political organization retains considerable strength and whose leadership has been actively preparing for elections, may be able, by dividing the conservative vote, to limit Democratic-Liberal gains. The Socialists can count on increasing support because of labor's opposition to the Democratic-Liberals whom Japanese trade unionists consider the representatives of the capitalists. Both parties, however, are suffering from the bad reputation gained during the incumbency of the last administration which not only failed to solve critical economic problems but also became implicated in major political scandals. The Democratic-Liberals, in obtaining an early election, stand to benefit from losses accruing to the Democrats and the Socialists because of their association with the fallen ASHIDA Government. YOSHIDA's party will undoubtedly increase its Diet representation but whether it will gain a majority remains to be seen.

Japanese Communists fail to make anticipated showing in school board elections. One phase of the democratization program for Japan has been the decentralization of the bureaucratic and centralized educational system. In connection with this decentralization, elections were held on 5 October for the forty-six prefectural and five metropolitan education boards which hereafter will supervise their respective local educational

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JAPAN (Cont.)

systems from elementary school through high school. The leftist-inclined teachers' union and the Japan Communist Party (JCP) have been making a very determined effort to place representatives on these boards. Public reaction has appeared apathetic throughout the election campaign despite a vigorous effort on the part of the press, radio and SCAP to awaken a realization of the dangers involved in the control of the education boards by the JCP. Rather belatedly awakened to the situation, the P.T.A. campaigned for the election of candidates of a non-political nature.

The incomplete returns available to date indicate that despite a rather light turnout which should have played into the JCP's hands, neither Communists nor the teachers' union have done as well as expected. Returns completed for Tokyo and six prefectures show only two successful JCP candidates. Although the political ideology of the elected teachers' union members is an unknown quantity this group appears to have obtained only limited and isolated success. A surprising number of individuals whose professions would denote middle-of-the-road to rightist political sympathies such as physicians, company officials, sake brewers, Buddhist priests and government officials were elected. According to interim returns women candidates did unexpectedly well winning three of the five seats in the Kyoto Metropolitan Education Board.

In the light of the education board's authority to select teacher personnel and school texts, the apparent results indicate that the JCP has suffered an important defeat in its attempted ideological control of Japan.

KOREA

North Korean regime to send delegation to UNGA. Another move designed to strengthen the Soviet position before the UN General Assembly (UNGA) and to forestall UNGA recognition of the Rhee regime in South Korea as the national Korean government is the announcement that the "Democratic People's Republic of Korea" is sending a delegation to UNGA. Pak Hun Yung, Foreign Minister of the North Korean government and head of the delegation, has addressed a letter to UN Secretary-General Lie requesting that the delegates be permitted, as the "legitimate representatives" of the Korean nation, to participate in UNGA discussions on Korea. He has also requested entry visas for the delegation from the French Foreign Minister. The fact that three of the five members of the delegation are South Koreans indicates an attempt to support the legal fiction that the Soviet puppet regime is a truly national government. By the time the Korean case comes before UNGA the USSR and its satellites can be expected to have accorded de jure recognition to the North Korean government. The Soviets may hope that these maneuvers will crystal-

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KOREA (Cont.)

like the reluctance of certain of the British Dominions to regard the South Korean regime as the "national" government envisaged in the UN Resolutions and thus prevent the US from securing more than UNGA recognition of the Rhee government as the legitimate government of South Korea alone. At this point the Soviets might offer a "compromise" solution to the impasse by proposing that the two Korean governments be permitted to negotiate for eventual federation "without outside interference".

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CHINA

Communist occupation of six major cities expected. The National Government appears about to lose its control over at least six more cities, including four capitals, at widely separated points throughout the civil war areas. The cities are: long-isolated Changchun in Manchuria, Chefoo in Shantung, Chenghsien and Kaifeng in Honan, Taiyuan in Shansi, and Sian in Shensi. At present Communist attacks on the Chihhsien corridor have slackened but the Communists appear to be in the corridor to stay and are capable of renewing their attacks in any direction at any time. The poorly defined corridor command responsibility between MU Tso-Yi and FAN Han-chieh, an open invitation to Communist disruption of the Mukden-Peiping rail line, has finally been resolved with MU's authority extended as far north as the Great Wall. However, the Government, in a move to bolster the defenses in the Chihhsien-Hulutao area, has moved at least six divisions from the Kailan mine area, thereby stripping this vital coal mining region of adequate defending forces. Despite a flurry of reports that the Nationalists in Manchuria have launched drives southward from Changchun and in three directions out of Mukden, reliable reports state that no movements have been undertaken, except a local advance into Anshan where no opposition was encountered. Moreover, there are indications that one or more of the armies defending Changchun may have defeated to the Communists. In any event, Changchun is currently ripe for Communist occupation, whether through attack, widespread defections, or Nationalist evacuation.

Although neither the forces of CHEN Yi nor LIU Po-cheng have been committed, Nationalist fears of an impending attack on the Hsuehou area have prompted them to order the evacuation of Chenghsien and Kaifeng, important rail junction and capital of Honan respectively. Coupled with this move is the withdrawal of the main Government strength from the area between Nanking and Hsuehou, along the railroad, into the Hsuehou perimeter. These maneuvers, although temporarily strengthening the Nationalists' position at Hsuehou, might easily hasten the isolation of that strategic base, thereby setting the stage for its eventual reduction by the Communists. In addition, the Nationalist Command has ordered the evacuation of the Shantung port of Chefoo, captured at great cost a little more than a year ago. The Communists have renewed their attacks on YEN Hsi-shan's restricted holdings around the Shansi capital of Taiyuan, and the Ministry of National Defense in Nanking admits they are expecting the early annihilation of YEN's forces. In Shensi Red Gen. PENG Teh-huai is leading at least four of his Communist columns in attacks on the weak Nationalist lines just north of Sian, Shensi provincial capital.

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Denial of Chinghsien airfield is strategic blow to Government. The Chinghsien airfield, utilized as the supply base for the Nationalist position in Manchuria, has been rendered inoperable as a result of recent Communist shelling. As a consequence of this loss all supplies formerly airlifted from Chinghsien to Mukden must now be flown from the inadequate field at Tientsin. The Tientsin field can accommodate only four aircraft simultaneously. As a result of the much greater distance, necessitating an increased gas load, each plane can currently make only three daily trips instead of six, and can carry only 4.7 tons per trip as compared with the former 8.2 ton pay load. This 60 percent curtailment of the vitally needed supplies for Mukden further weakens the Government's already extremely critical Manchurian position.

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Gasoline shortage threatens to ground Government military and commercial aircraft. The Chinese Air Force and all commercial airlines in China will soon be grounded unless present rapidly diminishing high octane gasoline stores are replenished. As a consequence of the US west coast shipping strike China stocks of foreign commercial oil companies will be depleted by mid-November. An appeal has been made to SCAP but he can offer no assurance of assistance due to SCAP's own required operating level.

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CHIANG Kai-shek's control over Kuomintang factions upon which he has generally depended for support continues to show signs of weakening. This is manifested particularly in the Legislative Yuan which recently rejected by an overwhelming vote CHIANG's request for confirmation of the declaration of martial law in Peiping, such confirmation being required by the Constitution. Neither SUN Fo, President of the Legislative Yuan, nor CHEN Li-fu, Vice President, seemed either disposed or able to bring about favorable action on CHIANG's request.

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Economic reform program receives major setback. Shanghai/Nanking: As an indication of decreasing confidence in the gold yuan a wild buying spree for durable commodities as a hedge against inflation, is

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now gaining impetus throughout this area. The principal factors behind this unrestrained move to unload gold yuan are: 1) delayed response to the impact of the fall of Tsinan, 2) huge amounts of currency issued in exchange for gold and foreign exchange, 3) possible rationing of daily necessities, and 4) buying while prices are still low. To meet a sharp luxury tax increase Gen. CHIANG Ching-kou, Administrator of the economic reform program, has authorized an approximate 100% increase in the retail price of tobacco and wines, thus introducing the first break in prices since he froze them at the 19 August level. It is expected this will lead to an upward readjustment of prices on other commodities.

Tientsin/Peiping: The relative market stability in Tientsin since 16 August came to an abrupt end last week when a sudden buying rush by consumers pushed prices up. Many shops were reported emptied of goods, while a majority of others refused to sell at official prices. Daily necessities on the black-market are now more than double the official prices, a level at which few transactions are now consummated. Black-market prices in Peiping have increased about four fold within the last three weeks. In both cities the US dollar black-market has advanced to GY \$8 for US \$1, twice the official rate, while gold bars have doubled in price in the last four days.

Canton: As a hedge against a sharp break in the value of the gold yuan, which US Consul General, Canton, reports as imminent, a movement is under way to convert cash to Hong Kong currency.

Gold Yuan Note Issue. The Currency Stabilization Board has reported that the note issue reached GY \$956 million on 30 September, an increase of 222% over GY \$296 million in circulation on 31 August. "C"

Smuggling. Because of active smuggling operations by regular units of the National Army and other armed groups in the East River area, it is estimated that of all commodities now reaching the Canton market only 40% clear customs while 60% are smuggled. Until recently this condition was reversed, with 40% entering illegally. "C"

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INDONESIA

Communist sabotage continues to threaten Republic. While it appears "M"
that Republican military forces have been successful in dispersing Communist forces, Communist sabotage is continuing to cause considerable damage in Republican areas of central Java. Communist activities have become especially serious at the oil center of Tjencoe, where several oil tanks have been fired. Reports issued by the Republic have been designed to detract from the gravity of the situation and indicate that the Republic is again in control of the oil fields. Dutch reports, designed to weaken the Republic's position, have characterized conditions as bordering on chaos. Netherlands officials at The Hague referring to the conditions in the Tjencoe area have indicated that they feel another "police action" in Republican territory would be justified on the grounds that the Netherlands, as sovereign over the area, is responsible for maintaining law and order.

Dutch move to form interim government outside GOC. The Netherlands Govern- "A"
ment, at a crucial period in the Good Offices Committee attempts to resume Dutch-Republican negotiations, is apparently prepared to announce the formation of an interim government sponsored by non-Republican Indonesians. "Federalist" representatives from non-Republican areas of Indonesia are reported to have reached a basic agreement with Netherlands officials at The Hague on the structure of an interim government which will precede establishment of a United States of Indonesia. This interim government is to be headed by an Indonesian triumvirate with two of the posts being occupied by Federalists and one being reserved for the Republic. After some of the minor details of the agreement have been settled, Dutch officials plan to submit the bill on the interim government to the Netherlands Parliament for enactment in the near future. It is expected that this interim government would become a useful instrument of Dutch authority if, after inviting the Republic to join the new interim government on a "take it or leave it" basis, the Netherlands decides to bypass the GOC and again attempt to arrive at a solution by military means.

SIAM

Phibul suppresses first major coup attempt. The abortive coup d'etat "B"
in Siam early this month, which was aimed at the overthrow of the military clique surrounding Premier Phibul, may result in the institution of stronger authoritarian measures. It is apparent that a large part of the Siamese Army General Staff, interested in divorcing the army from politics, was involved in the plot. In addition, it is believed that this movement was partially financed by former Premier Pridi's supporters who probably desire to develop larger scale defection within the army.

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SIAM (continued)

The coup attempt and its swift suppression illustrate both the growing dissatisfaction among responsible career military officers with the military clique around Phibul and the continuing ability of the Phibul regime to maintain control. Many of the arrested General Staff officers probably will be forgiven and reinstated under careful observation since the loss of such personnel would seriously weaken the army. Nevertheless, Phibul is faced with a dilemma, and, if his strong army support is to continue, he must resolve the issues creating dissension within the military. Phibul probably is capable, under present conditions, of withstanding occasional coup attempts for at least the next six to eight months. If the stronger measures are instituted, however, the development of a more effective opposition can be expected.

PHILIPPINES

Alleged detention of Philippine labor leader causes criticism of US. "C"
A four-hour investigation of a leading Filipino labor leader allegedly conducted by FBI officials in Hawaii while the former was enroute to the US has resulted in several instances of sharp Philippine press criticism of the United States.

Against the advice of two Philippine intelligence agencies, Amado V. Hernandez, president of the leftist Congress of Labor Organizations and minority member of the Manila City Council, was issued a passport by the Philippine Department of Foreign Affairs. Hernandez is now in the United States where he plans to investigate social conditions and city government, and is enroute to Belgium where he will attend the World Federation of Trade Unions Conference. Official US and Philippine opinions differ as to the extent of Hernandez' leftist sympathies, but it is generally believed that he is somewhat less radical than most of his associates. The Philippine Government, under the recently appointed Secretary of Labor Primitivo Lovina, is currently attempting to conciliate leftist unions and reportedly considers Hernandez an important factor in influencing communist and communist-inclined leaders.

NEW ZEALAND

New Zealand bill brings up question of US claims to Pacific Island group. "C"
The State Department has asked the Legation at Wellington for full information on a bill before the New Zealand Parliament which would incorporate the Tokelau Islands as part of New Zealand. The US has historic claims to this group of three small atolls just north of Samoa in the South Pacific which have never been renounced. The claims were set forth in a note to the British Government in 1939 at the time of the expansion of civil aviation in the Pacific. Since 1926 the islands have been administered by New Zealand from Western Samoa; prior to that they were administered by the UK as part of the Gilbert and Ellice Islands Colony.

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